

Message Text

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TO SECSTATE WASHDC 4171

INFO AMEMBASSY SEOUL

AMCONSUL HONG KONG

UNCLAS TAIPEI 4065

HONG KONG FOR REGIONAL TREASURY REP

E.O. 11652: N/A

TAGS: EFIN, TW

SUBJECT: ROC BALANCE OF PAYMENTS FOR FIRST QUARTER 1977

1. BALANCE-OF-PAYMENTS DATA RECENTLY RELEASED BY THE CENTRAL BANK OF CHINA FOR THE FIRST QUARTER OF THIS YEAR INDICATE THAT TAIWAN'S EXTERNAL ECONOMY, WHICH IMPROVED STRONGLY IN 1976, IS STILL IN EXCELLENT CONDITION. EVEN THE FOREIGN TRADE SECTOR, DESPITE SOME SOFT SPOTS (MAINLY IN THE TEXTILES INDUSTRY) SHOWED GOOD RESULTS. BY COMPARISON WITH THE CORRESPONDING QUARTER OF 1976, EXPORTS (INCLUDING SERVICES) WERE UP 24 PERCENT, OR ROUGHLY 18 PERCENT IN REAL TERMS), WHICH IS GENERALLY CONSISTENT WITH TARGET LEVELS FOR THE YEAR--A SITUATION, INCIDENTALLY, WHICH IS NOT APPARENT FROM CUSTOMS DATA. IMPORTS INCREASED MORE SLOWLY--AT ABOUT 17 PERCENT IN NOMINAL TERMS. AS A RESULT, TAIWAN POSTED A US\$130 MILLION SURPLUS IN THE GOODS AND SERVICES ACCOUNT, WITH EXPORTS OF US\$2,324 MILLION AND IMPORTS OF US\$2,194 MILLION. NET TRANSFERS AND FACTOR PAYMENTS ABROAD, INCLUDING INTEREST ON FOREIGN LOANS, REDUCED THE TRADE

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SURPLUS BY ONLY US\$5 MILLION, YIELDING AN OVERALL CURRENT ACCOUNT BALANCE OF US\$125 MILLION, (IN THE FIRST QUARTER OF 1976, THE CURRENT ACCOUNT WAS IN DEFICIT BY US\$75 MILLION.)

2. IN THE EXPORT SECTOR, CUSTOMS STATISTICS REVEAL THAT THE MAIN SOFT SPOT IS IN TEXTILES. EXPORTS OF TEXTILE

PRODUCTS IN THE FIRST FIVE MONTHS OF 1977 WERE DOWN TEN PERCENT FROM THE SAME PERIOD OF 1976. ANOTHER BIG LOSER IS THE SUGAR REFINING INDUSTRY WHICH HAS BEEN SERIOUSLY AFFECTED BY THE DROP IN WORLD SUGAR PRICES. TAIWAN'S SUGAR EXPORTS (BY VALUE) IN JANUARY-MAY WERE DOWN 42 PERCENT FROM THE SAME PERIOD LAST YEAR. BY CONTRAST, TWO OTHER MAJOR EXPORT INDUSTRIES-- ELECTRONICS AND WOOD PRODUCTS-- ARE HAVING A VERY GOOD YEAR. EXPORTS OF ELECTRONIC PRODUCTS WERE UP 26 PERCENT, AND WOOD PRODUCT SALES WERE UP 31 PERCENT IN THE JANUARY-MAY PERIOD. (THESE TWO INDUSTRIES CURRENTLY ACCOUNT FOR ABOUT 23 PERCENT OF TAIWAN'S TOTAL EXPORTS.) THUS, WHILE A DOWN-TURN IN TWO IMPORTANT INDUSTRIES HAS DAMPENED THE OVERALL EXPORT PICTURE THIS YEAR, THE SITUATION IS BY NO MEANS ALL BAD.

3. THE BALANCE-OF-PAYMENTS CAPITAL ACCOUNT SHOWED A NET INFLOW OF US\$220 MILLION FOR THE QUARTER, INCLUDING AN UNUSUALLY LARGE VOLUME OF SHORT-TERM CAPITAL. THE LATTER AMOUNTED TO US\$150 MILLION, OF WHICH US\$7 MILLION WAS ACCOUNTED FOR BY SHORT-TERM FOREIGN LOANS TO THE PUBLIC ENTERPRISES AND BY FUNDS BROUGHT IN BY FOREIGN BRANCH BANKS IN TAIWAN TO SUPPORT THEIR SHORT-TERM LENDING ACTIVITIES. OF THE US\$70 MILLION NET INFLOW OF LONG-AND MEDIUM-TERM CAPITAL, A LARGE PART (US\$41 MILLION) WAS ACCOUNTED FOR BY THE MORGAN GUARANTY/USEXIMBANK LOAN TO THE ROC DIRECTORATE GENERAL OF TELECOMMUNICATIONS.
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4. TOTAL NET INFLOWS, INCLUDING US\$42 MILLION IN ERRORS AND OMISSIONS, GAVE TAIWAN AN OVERALL SURPLUS OF US\$387 MILLION FOR THE QUARTER, RAISING TOTAL ACCUMULATED NET FOREX RESERVES TO US\$3,277 MILLION AT THE END OF MARCH. NET RESERVES CONTINUED TO INCREASE IN THE FOLLOWING TWO MONTHS, TO REACH US\$3,568 MILLION AT THE END OF MAY.

5. COMMENT. AS INDICATED IN TAIPEI 3922, DEVALUWION OF THE NT DOLLAR IS NOT IN PROSPECT. THE STRONG FIRST QUARTER PERFORMANCE OF THE EXTERNAL ECONOMY LENDS FURTHER SUPPORT TO THOSE WITHIN THE GROC WHO ARE OPPOSED TO DEVALUATION.
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